

TESTIMONY OF

EDWARD BODMER

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 80-0544

1. Q. Will you please state your name and business address?

A. My name is Edward Bodmer and my business address is 527 East Capitol Avenue, Springfield, Illinois 62706.

2. Q. By whom are you employed?

A. I have been employed by the Illinois Commerce Commission, Public Utilities Division, Accounts and Finance Department since June, 1979.

3. Q. Please describe your educational background.

A. I graduated from the University of Illinois Urbana Campus in May of 1979 with a B.S. degree in Finance. I also earned the equivalent of a B.S. in economics and completed 17 credit hours of mathematics. Since graduation I have completed course work in accounting through correspondence at the University of Illinois. In August of 1980 I attended a two-week NARUC seminar at Michigan State University on Public Utility Regulation.

4. Q. Did you receive any honors as an undergraduate?

A. Yes. I graduated with highest honors and a 5.0/5.0 scholastic average. I was awarded University Honors and the Bronze Tablet - "the highest recognition for academic excellence granted by the University of Illinois" in 1979. I was elected to the Beta Gamma Sigma honorary business fraternity as a junior and I won the "Scholarship Key Award" given by the Alpha Kappa Psi professional business fraternity as a senior.

5. Q. What have been your duties and responsibilities at the Commission?

A. My work has been principally in the area of computer applications to financial analysis in regulation. In this regard I have done substantial work on the Commission's financial forecasting model and I have given a seminar at the Energy and Environmental Systems Division of Argonne National Laboratory.

6. Q. What is the purpose of your testimony today?

A. My purpose is to present the methodology and some results of the financial model Staff has developed in order to simulate the incentives discussed by Mr. Karl McDermott.

7. Q. Have financial simulation models previously been used by Staff?

A. Yes. A similar model was used by Mr. Bruce Larson in Docket 78-0646 - the investigation into the construction activities of Commonwealth Edison Company. A one year simulation has additionally been presented in this docket using essentially the same computer algorithms as those of the present study.

8. Q. Briefly describe the derivation of the model and some of its advantages over other computer models?

A. The Regulatory Analysis model was originally obtained by the Commission from the National Regulatory Research Institute in 1978. Since August 1979, however, the Accounts and Finance

Staff has been revising the model to reflect more realistic and detailed computations which are critical to accurately simulate Illinois rate-making practices. These revisions include changes in book depreciation, tax depreciation, revenue taxes, property taxes, invested capital taxes, current taxes, deferred taxes, investment tax credits (and limitations), AFUDC, non-operating tax credits, miscellaneous income, preferred dividends, common dividends, and rate base as well as a host of other changes in the balance sheet and source and application of funds statement.

Unlike many other models of utility companies, Staff's study outputs total long-term revenue requirements and the complete financial condition of the utility. The study Staff has performed instead of working incrementally takes account of the existing assets and capitalization of the utility and simulates future financing. In further contrast to many models used by utility companies, the Staff study employs a "rate base" model where revenue requirements are developed

from cost of service including a rate of return earned on assets. Because the model takes account of company wide operations and because the model simulates regulatory policies, the scenarios become very effective tools for the Commission to employ in balancing interests of financial integrity of the utility company and ultimate costs to the consumer. The financial integrity is measured by the model not only in terms of return on assets and equity, but additionally by many cash flow statistics, coverage ratios, and other earnings quality measures. Ultimate costs to the consumer are obviously shown in the revenue requirement statistics output by the model. In studying these costs, the Commission can gauge patterns of revenue requirements and present value figures as well as the absolute levels of revenues.

9. Q. Please describe Exhibit AF 3.1.

A. The exhibit shows the various runs made in the study. The scenarios can be separated into four groups:

- o The "core" group (#1-#8): These scenarios study the effects of alternate levels of CWIP included in rate base along with alternate rates of return.

- o The "delayed construction" group (#10 - #13): These scenarios study the effects in a few of the core group cases of a hypothetical delay in the construction of the Clinton Unit #1 plant.
- o The "Bond Derating" group (#20 - #22): These scenarios attempt to measure the costs of a bond de-rating in conjunction with various other Commission policies.
- o The "regulatory lag" group (#30 - #32): These scenarios study the effects on financial condition of earning a half percentage point lower rate of return on rate base than the return granted in the "core" group.

10. Q. What rate of return has been used in the model?

A. For purposes of the model either a rate of return on assets (rate base), or a rate of return on equity (capitalization method) can be employed to reflect regulatory policy. Although Staff's study sets a rate of return on rate base to achieve a certain return on equity in 1981, the 1982 and

1983 rate base returns are held constant allowing equity returns to decrease. This procedure has been employed because:

- o The procedure highlights an important difference between returns on CWIP under the AFUDC methodology and the CWIP in rate base methodology: whereas the AFUDC equity return is automatic, when CWIP is included in rate base the return is subject to lags in financial costs.
- o The procedure allows different rates of return to be explicitly set on CWIP assets and "non-CWIP rate base" during the construction period of Clinton Unit #1.
- o The procedure demonstrates lags in financial expenses (as opposed to operating expense lags) and the effects of these lags on various different scenarios.

After Clinton Unit #1 comes on line - when external financing declines, AFUDC impacts diminish, and CWIP is not included in rate base, the significance of the

above three points disappears and the rate of return on rate base is automatically varied to determine a capitalization return on equity (based on beginning of the year embedded interest rates and capitalization).

11. Q. Please describe some of the other inputs and assumptions used in the "core scenarios".

A. The allowance for funds used during construction rate reflects the rate of return set on equity in 1981. In subsequent years the AFUDC rate is calculated endogenously using the FERC formula and the 1981 return on equity. The FERC formula is of course derived from embedded rates on long term debt, embedded rates on preferred stock, average short-term debt rates, average short term debt levels, average CWIP levels, and capitalization ratios. The AFUDC calculation employs semi-annual compounding and assumes construction expenditures and in service dates all occur at mid year. The amount of CWIP included in the rate base is deducted from beginning of the year CWIP levels for purposes of the AFUDC calculation.

The capital expenditure budget is segregated as between Clinton Unit #1 and "all other" plant

(which includes total gas plant as well as transmission, distribution, general and "backfitting" electric plant). Total construction expenditures approximate those used in IP's revised forecast for the period from 1981-1984; expenditures subsequent to 1984 are inflated at 5% from the 1984 base level of \$150 million.

Depreciation expense calculations are segregated as between plant in service existing as of the end of 1980 and subsequent plant additions. Depreciation on existing plant is based on an overall average rate of 3.06%. Plant additions in the "all other" category are depreciated based on an average life of 33.6 years and Clinton Unit #1 is depreciated at a rate of 4%.

12. Q. Please continue describing the assumptions and inputs to the model.

A. Fuel, purchased power, and other operations and maintenance expenses are based on IP's forecast from 1981-1984 reflecting a Clinton Unit #1 in service date of mid 1983. After 1984 fuel is inflated at a rate of 5%; purchased power at a

rate of 3%; and other operation and maintenance expenses are inflated at a 7.5%. For purposes of the study, these O&M expenses do not affect any financial ratios, nor do the O&M expenses cause any differential in present value of revenue requirement calculations.

Revenue taxes do not include add-on taxes and only reflect the 3% state of Illinois tax. Property taxes are calculated using the book value of plant in service excluding AFUDC on new plant. Miscellaneous taxes shown on the income statement include the .08% capitalization tax recently instituted by the Illinois State Legislature.

Deferred taxes are divided as between those due to accelerated tax depreciation and those deferred due to any other book/tax timing differences. The tax depreciation is segregated as between depreciation on plant in service as of December 30, 1980 and plant placed into service subsequent to that date. Tax depreciation on existing plant is estimated using book additions to plant in service since 1973 less 20% estimated as non-tax depreciable

indirects and tax additions from 1954-1972 are estimated at \$51.1 million. Using these expenditure patterns, along with depreciation methods which use the greatest of double declining balance, sum of years digits, or straight line, and an estimated average tax life of 23.5 results in a tax depreciation figure of \$75 million. This approximates the tax depreciation utilized by Illinois Power in 1979 and 1980. Tax depreciation on post 1980 additions is calculated using similar maximization techniques; tax lives of 24 years are used for the "all other" category, and a tax life of 16 years is used for Clinton Unit #1. As with accelerated depreciation, the "straight line tax" depreciation used for the deferral calculation is calculated in two parts (on existing plant and future plant). The future straight line tax depreciation calculations are again segregated as between Clinton Unit #1 and "all other" and use book depreciation rates applied to the tax basis of the plant. Tax deferrals based on timing differences other than accelerated tax depreciation are backed in based on Illinois Power's forecast for 1981 and 1982 and deflated at a rate of 8% from the 1982 base.

The details of the current income tax and the investment tax credit computations are shown in the various "finance reports" output by the computer. The "taxes flowed through shown in the reports are the result of the difference between book depreciation and "straight line tax" depreciation. Non-operating tax credits are computed by allocating long-term debt interest to CWIP not included in rate base, other properties and investments, and working capital not included in rate base. Taxes on miscellaneous income are also deducted from the non-operating income tax credits.

Interest on long-term debt, the provision for preferred dividends, and dividends paid on common stock are based on various capitalization ratios and money costs including a dividend per share growth rate of 5% after 1982.

The balance sheet net working capital levels are computed as 5% of the previous year's operating revenue.

The 1980 base year used as a starting point is the same as that used in the rate case testimony Staff Exhibit AF 2.11.

13. Q. Please discuss the principle impacts in the model from allowing different levels of CWIP in the rate base.

A. The influences can be described in terms of direct impacts on the income statement, secondary effects because of alternate financing levels, and third order effects from different embedded costs of long-term debt and preferred stock.

o The direct effects on the income statement include differences in AFUDC, allocated taxes, operating income, income taxes, investment tax credit amortization, revenue taxes, and revenue requirements while the plant is being built. After the plant is in service, the impacts include variances in rate base, operating income, depreciation expense, income taxes (including taxes "flowed through"), revenue taxes, and revenue requirements.

- o The secondary influences due to different external financing requirements impact the levels of capital on the balance sheet, the fixed charges on the income statement, the number of shares outstanding, and invested capital taxes.
- o The third order effects because of variances in embedded rates on preferred stock and long term debt principally impact future rates of return which correspondingly change income taxes, revenue taxes, and revenue requirements. These third order effects on rate of return become significant because the rate of return is of course applied to total rate base in the model.

14. Q. Please describe what inputs and assumptions have been changed in the so called "delay cases".

A. In these cases Staff has made an attempt to simulate the effects of a further revision in the cost estimates and the in service date of Clinton Unit #1. Although the direct costs are assumed to be the

same as those of the core runs in 1981 and 1982, the expenditure levels for Clinton #1 have been assumed to increase from \$9 million to \$140 million in 1983 and the in service date has been changed from mid 1983 to mid 1984. Along with this alternate capital budget the following parameters have been changed:

- o The rate of return on rate base is held constant for an additional year while the change to the return on equity made is delayed for one year.
- o In 1982 through 1984 the rate of return on CWIP in rate base is lowered by one percentage point for scenario #11 and two percentage points for scenario #12.
- o These scenarios have additionally been re-run assuming certain operating efficiencies from Clinton Unit #1 do not occur. In these cases an additional fuel expense of \$40 million has been assumed for 1983. (It should be noted that this estimate is very conservative in that changes in purchased power as well as many other

factors such as O&M expenses and additional sales to co-operatives have not been assumed).

15. Q. Please discuss what inputs and assumptions have been used in the so called "bond de-rating" cases.

A. These scenarios use basically the same inputs as those in the core cases with the exception that financing costs of long term debt, short term debt, and preferred stock have been increased by .36% and the stock price has been decreased by 50¢ for the years 1981, 1982, and 1983. These changes have two principal impacts:

(1) In that the embedded rates on long term debt and preferred stock increase, and the returns on rate base rise, future revenue requirements are impacted.

(2) Because the number of shares outstanding increases, the bond de-rating lowers the earnings per share figures.

16. Q. Please describe the assumptions used in the "regulatory lag" scenarios.

A. These scenarios simply lower the rate of return on non-CWIP rate base by one half of one percentage point. The returns on CWIP in rate base are not affected in these cases because the lags are assumed to be from operating expenses which are greater than those allowed as recoverable in a rate case. It should be noted that these scenarios also include lags in financing expenses (because of external financing due to construction) as discussed in question number 9. These sensitivity studies principally affect financial ratios from 1981 to 1983 in the model.

17. Q. Please discuss the accuracy of the [98] financial ratios output by the model.

The 1981 ratios are annualized to reflect a rate increase in effect for the full year (for example CWIP levels are assumed to be in rate base from the beginning of the year). Although this is clearly not possible since an order in the rate case is not likely to be entered until the summer, the impacts on the financial ratios from different scenarios must still be studied carefully. I have repeated throughout my testimony that Staff's study uses a simulation model. As such although absolute levels

of financial ratios and revenues will not be totally accurate, the impacts of various policies on revenues and financial condition are still very relevant.

18. Q. Please describe exhibit AF 3.2

A. This exhibit contains outputs for scenarios #1. and #8. Similar computer printouts for all of the scenarios are available at the Commission office.

19. Q. Please describe exhibit AF 3.3

A. This exhibit contains revenue data for all of the scenarios.

I. "Core Runs"

Staff Exhibit AF 3.1

| Scenario Number | CWIP in Rate Base | 1981 Return on Equity (Cap) | 1981-1983 Return on Non-CWIP Rate Base | 1981-1983 Return on CWIP Rate Base |
|-----------------|-------------------|-----------------------------|--|------------------------------------|
| 1 | \$ 97,064,000 | 15% | 10.92% | 10.92% |
| 2 | 200,000,000 | 13% | 10.92% | 5.80% |
| 3 | 200,000,000 | 14% | 10.92% | 8.35% |
| 4 | 300,000,000 | 13% | 10.92% | 7.20% |
| 5 | 300,000,000 | 14% | 10.92% | 9.10% |
| 6 | 400,000,000 | 13% | 10.92% | 7.95% |
| 7 | 400,000,000 | 14% | 10.92% | 9.45% |
| 8 | 500,000,000 | 13% | 10.92% | 8.35% |

IIa. "Delayed Construction Runs without Fuel Savings"

| Scenario Number | CWIP in Rate Base | 1981 Return on Equity | 1982-1984 Return on Non-CWIP Rate Base | 1982-1984 Return on CWIP Rate Base |
|-----------------|-------------------|-----------------------|--|------------------------------------|
| 10 | \$ 97,064,000 | 15% | 10.92% | 10.92% |
| 11 | 200,000,000 | 14% | 10.92% | 7.35% |
| 12 | 400,000,000 | 13% | 10.92% | 5.95% |
| 13 | 400,000,000 | 13% | 10.92% | 7.95% |

IIb. "Delayed Construction Runs with Fuel Savings"

| Scenario Number | CWIP in Rate Base | 1981 Return on Equity | 1982-1984 Return on Non-CWIP Rate Base | 1982-1984 Return on CWIP Rate Base |
|-----------------|-------------------|-----------------------|--|------------------------------------|
| 101 | \$ 97,064,000 | 15% | 10.92% | 10.92% |
| 111 | 200,000,000 | 14% | 10.92% | 7.35% |
| 121 | 400,000,000 | 13% | 10.92% | 5.95% |
| 131 | 400,000,000 | 13% | 10.92% | 7.95% |

III. "Bond De-Rating Runs"

| Scenario Number | CWIP in Rate Base | 1981 Return on Equity | 1981-1983 Return on Non-CWIP Rate Base | 1981-1983 Return on CWIP Rate Base |
|-----------------|-------------------|-----------------------|--|------------------------------------|
| 20 | \$ 97,064,000 | 15% | 10.92% | 10.92% |
| 21 | 200,000,000 | 14% | 10.92% | 8.35% |
| 22 | 400,000,000 | 13% | 10.92% | 7.95% |

IV. "Regulatory Lag Runs"

| Scenario Number | CWIP in Rate Base | 1981 Return on Equity | 1981-1983 Return on Non-CWIP Rate Base | 1981-1983 Return on CWIP Rate Base |
|-----------------|-------------------|-----------------------|--|------------------------------------|
| 30 | \$ 97,064,000 | 15% | 10.42% | 10.92% |
| 31 | 200,000,000 | 14% | 10.42% | 8.35% |
| 32 | 400,000,000 | 13% | 10.42% | 7.95% |

Percent Increase in Revenues

| Ratio # | CWIP in Rate Base | 1981 ROE | 1981 DPS | 1981 | 1982 | Year 1983 | 1984 | 1985 |
|------------|----------------------|-------------|-------------|-------|-------|--------------|-------|------|
| 1 | 97 | 15% | 2.28 | 12.31 | 11.59 | 21.07 | 18.03 | 3.67 |
| 1 | 97 | 15% | 2.38 | 12.31 | 11.59 | 21.07 | 18.03 | 3.67 |
| 2 | 200 | 13% | 2.28 | 11.97 | 11.51 | 20.31 | 18.00 | 3.72 |
| 2 | 200 | 13% | 2.38 | 11.98 | 11.54 | 20.29 | 17.99 | 3.72 |
| 3 | 200 | 14% | 2.28 | 13.18 | 11.43 | 19.73 | 17.63 | 3.71 |
| 3 | 200 | 14% | 2.38 | 13.18 | 11.43 | 19.73 | 17.63 | 3.71 |
| 4 | 300 | 13% | 2.28 | 13.78 | 11.29 | 18.74 | 17.23 | 3.74 |
| 4 | 300 | 13% | 2.38 | 13.78 | 11.29 | 18.74 | 17.23 | 3.74 |
| 5 | 300 | 14% | 2.28 | 15.12 | 11.96 | 17.29 | 16.80 | 3.73 |
| 5 | 300 | 14% | 2.38 | 15.12 | 11.96 | 17.29 | 16.80 | 3.73 |
| 6 | 400 | 13% | 2.28 | 15.64 | 11.05 | 17.21 | 16.45 | 3.77 |
| 6 | 400 | 13% | 2.38 | 15.64 | 11.05 | 17.33 | 16.32 | 3.77 |
| 7 | 400 | 14% | 2.28 | 17.04 | 10.93 | 16.56 | 15.99 | 3.76 |
| 7 | 400 | 14% | 2.38 | 17.05 | 10.93 | 16.56 | 15.98 | 3.76 |
| 8 | 500 | 13% | 2.28 | 17.43 | 10.82 | 15.75 | 15.69 | 3.79 |
| 8 | 500 | 13% | 2.38 | 17.43 | 10.82 | 15.75 | 15.69 | 3.79 |

Revenues (in \$ millions)

| <u>Scenario #</u> | <u>CWIP in Rate Base</u> | <u>1981 ROE</u> | <u>1981 DPS</u> | <u>1981</u> | <u>1982</u> | <u>Year 1983</u> | <u>1984</u> | <u>1985</u> |
|-------------------|--------------------------|-----------------|-----------------|-------------|-------------|------------------|-------------|-------------|
| 1 | 97.06 | 15% | 2.28 | 976 | 1,089 | 1,319 | 1,556 | 1,613 |
| 1 | 97.06 | 15% | 2.38 | 976 | 1,089 | 1,319 | 1,556 | 1,613 |
| 2 | 200 | 13% | 2.28 | 973 | 1,085 | 1,305 | 1,540 | 1,598 |
| 2 | 200 | 13% | 2.38 | 973 | 1,085 | 1,306 | 1,540 | 1,598 |
| 3 | 200 | 14% | 2.28 | 983 | 1,096 | 1,312 | 1,543 | 1,601 |
| 3 | 200 | 14% | 2.38 | 983 | 1,096 | 1,312 | 1,543 | 1,601 |
| 4 | 300 | 13% | 2.28 | 989 | 1,100 | 1,307 | 1,532 | 1,589 |
| 4 | 300 | 13% | 2.38 | 989 | 1,100 | 1,307 | 1,532 | 1,589 |
| 5 | 300 | 14% | 2.28 | 1,000 | 1,120 | 1,314 | 1,534 | 1,592 |
| 5 | 300 | 14% | 2.38 | 1,000 | 1,120 | 1,314 | 1,534 | 1,592 |
| 6 | 400 | 13% | 2.28 | 1,005 | 1,116 | 1,308 | 1,523 | 1,580 |
| 6 | 400 | 13% | 2.38 | 1,005 | 1,116 | 1,309 | 1,523 | 1,580 |
| 7 | 400 | 14% | 2.28 | 1,017 | 1,128 | 1,315 | 1,525 | 1,583 |
| 7 | 400 | 14% | 2.38 | 1,017 | 1,128 | 1,315 | 1,525 | 1,583 |
| 8 | 500 | 13% | 2.28 | 1,020 | 1,131 | 1,309 | 1,514 | 1,572 |
| 8 | 500 | 13% | 2.38 | 1,020 | 1,131 | 1,309 | 1,514 | 1,572 |

Internal Generation/Construction Expenditures

| ario | OWIP in Rate Base | 1981 ROE | 1981 DPS | 1981 | 1982 | Year 1983 | 1984 | 1985 |
|------|----------------------|-------------|-------------|-------|-------|--------------|--------|--------|
| 1 | 97 | 15% | 2.28 | 33.92 | 17.25 | 85.91 | 156.12 | 158.00 |
| 1 | 97 | 15% | 2.38 | 32.95 | 13.57 | 83.22 | 153.09 | 154.62 |
| 2 | 200 | 13% | 2.28 | 33.29 | 15.68 | 78.79 | 147.15 | 147.77 |
| 2 | 200 | 13% | 2.38 | 32.37 | 14.62 | 76.30 | 144.23 | 144.46 |
| 3 | 200 | 14% | 2.28 | 35.07 | 18.40 | 82.84 | 150.78 | 151.97 |
| 3 | 200 | 14% | 2.38 | 34.11 | 17.22 | 80.16 | 147.72 | 148.53 |
| 4 | 300 | 13% | 2.28 | 35.85 | 19.07 | 80.35 | 145.66 | 146.19 |
| 4 | 300 | 13% | 2.38 | 34.90 | 17.91 | 77.68 | 142.57 | 142.72 |
| 5 | 300 | 14% | 2.28 | 37.80 | 24.95 | 85.75 | 150.44 | 151.78 |
| 5 | 300 | 14% | 2.38 | 36.83 | 23.75 | 83.06 | 147.37 | 148.34 |
| 6 | 400 | 13% | 2.28 | 38.45 | 22.37 | 82.09 | 144.17 | 144.64 |
| 6 | 400 | 13% | 2.38 | 37.49 | 21.19 | 80.36 | 141.16 | 141.24 |
| 7 | 400 | 14% | 2.28 | 40.50 | 25.27 | 86.51 | 147.61 | 148.67 |
| 7 | 400 | 14% | 2.38 | 39.53 | 24.06 | 83.76 | 144.44 | 145.09 |
| 8 | 500 | 13% | 2.28 | 40.97 | 25.56 | 83.68 | 142.59 | 142.98 |
| 8 | 500 | 13% | 2.38 | 40.01 | 24.35 | 80.92 | 139.38 | 139.34 |

Present Value of Revenue Requirements in 2008 (In Millions)

| Scenario # | CWIP in Rate Base | 1981 ROE | 1981 DPS | 0% | Present Value 5% | Value 10% | Discount 15% | Rate 20% |
|------------|-------------------|----------|----------|--------|------------------|-----------|--------------|----------|
| 1 | 97 | 15% | 2.28 | 72,491 | 31,378 | 16,250 | 9,754 | 6,536 |
| 1 | 97 | 15 | 2.38 | 72,491 | 31,378 | 16,250 | 9,754 | 6,536 |
| 2 | 200 | 13 | 2.28 | 72,188 | 31,219 | 16,154 | 9,691 | 6,491 |
| 2 | 200 | 13 | 2.38 | 72,189 | 31,219 | 16,154 | 9,691 | 6,491 |
| 3 | 200 | 14 | 2.28 | 72,267 | 31,289 | 16,191 | 9,719 | 6,514 |
| 3 | 200 | 14 | 2.38 | 72,267 | 31,269 | 16,191 | 9,719 | 6,514 |
| 4 | 300 | 13 | 2.28 | 72,056 | 31,165 | 16,133 | 9,685 | 6,492 |
| 4 | 300 | 13 | 2.38 | 72,056 | 31,165 | 16,133 | 9,685 | 6,492 |
| 5 | 300 | 14 | 2.28 | 72,138 | 31,222 | 16,176 | 9,719 | 6,521 |
| 5 | 300 | 14 | 2.38 | 72,138 | 31,221 | 16,176 | 9,719 | 6,521 |
| 6 | 400 | 13 | 2.28 | 71,925 | 31,113 | 16,113 | 9,679 | 6,494 |
| 6 | 400 | 13 | 2.38 | 71,926 | 31,114 | 16,114 | 9,680 | 6,495 |
| 7 | 400 | 14 | 2.28 | 71,995 | 31,160 | 16,149 | 9,708 | 6,518 |
| 7 | 400 | 14 | 2.38 | 71,995 | 31,160 | 16,149 | 9,708 | 6,518 |
| 8 | 500 | 13 | 2.28 | 71,792 | 31,059 | 16,092 | 9,673 | 6,495 |
| 8 | 500 | 13 | 2.38 | 71,792 | 31,059 | 16,092 | 9,673 | 6,495 |

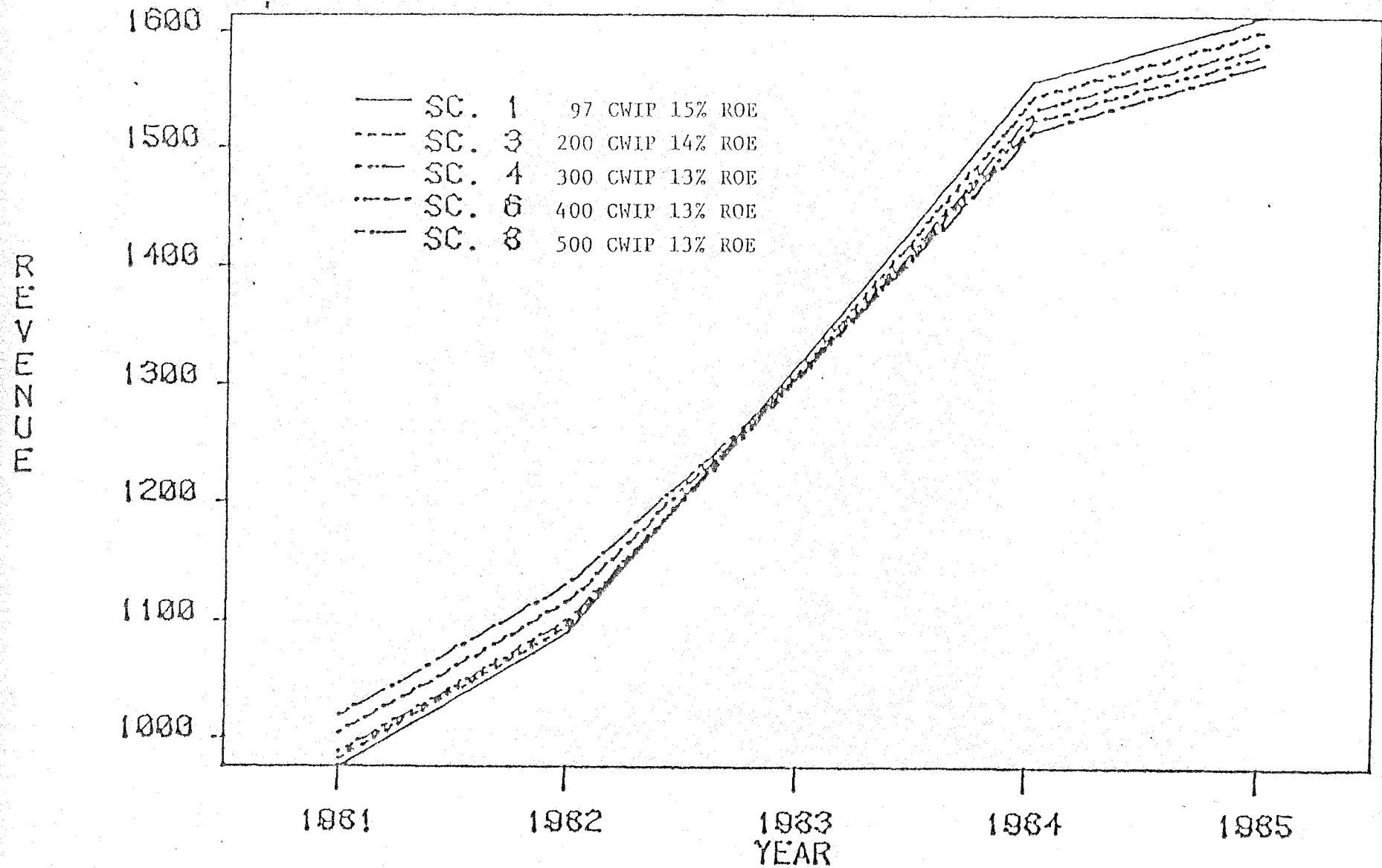
Coverage Excluding AFDC

| <u>Scenario</u> <u>#</u> | <u>CWIP in</u> <u>Rate Base</u> | <u>1981</u> <u>ROE</u> | <u>1981</u> <u>DPS</u> | <u>1981</u> | <u>1982</u> | <u>Year</u> <u>1983</u> | <u>1984</u> | <u>1985</u> |
|-----------------------------|------------------------------------|---------------------------|---------------------------|-------------|-------------|----------------------------|-------------|-------------|
| 1 | 97 | 15% | 2.28 | 2.48 | 2.12 | 2.93 | 3.89 | 3.88 |
| 1 | 97 | 15% | 2.38 | 2.48 | 2.12 | 2.93 | 3.89 | 3.88 |
| 2 | 200 | 13% | 2.28 | 2.46 | 2.12 | 2.91 | 3.87 | 3.86 |
| 2 | 200 | 13% | 2.38 | 2.46 | 2.11 | 2.91 | 3.87 | 3.86 |
| 3 | 200 | 14% | 2.28 | 2.57 | 2.21 | 2.94 | 3.87 | 3.86 |
| 3 | 200 | 14% | 2.38 | 2.57 | 2.21 | 2.94 | 3.87 | 3.86 |
| 4 | 300 | 13% | 2.28 | 2.64 | 2.28 | 2.95 | 3.85 | 3.84 |
| 4 | 300 | 13% | 2.38 | 2.64 | 2.28 | 2.95 | 3.85 | 3.84 |
| 5 | 300 | 14% | 2.28 | 2.76 | 2.38 | 3.00 | 3.85 | 3.84 |
| 5 | 300 | 14% | 2.38 | 2.76 | 2.38 | 3.00 | 3.85 | 3.84 |
| 6 | 400 | 13% | 2.28 | 2.82 | 2.44 | 3.00 | 3.84 | 3.82 |
| 6 | 400 | 13% | 2.38 | 2.82 | 2.44 | 3.00 | 3.84 | 3.82 |
| 7 | 400 | 14% | 2.28 | 2.95 | 2.55 | 3.05 | 3.84 | 3.82 |
| 7 | 400 | 14% | 2.38 | 2.95 | 2.55 | 3.05 | 3.84 | 3.82 |
| 8 | 500 | 13% | 2.28 | 3.00 | 2.60 | 3.05 | 3.82 | 3.80 |
| 8 | 500 | 13% | 2.38 | 3.00 | 2.60 | 3.05 | 3.82 | 3.80 |

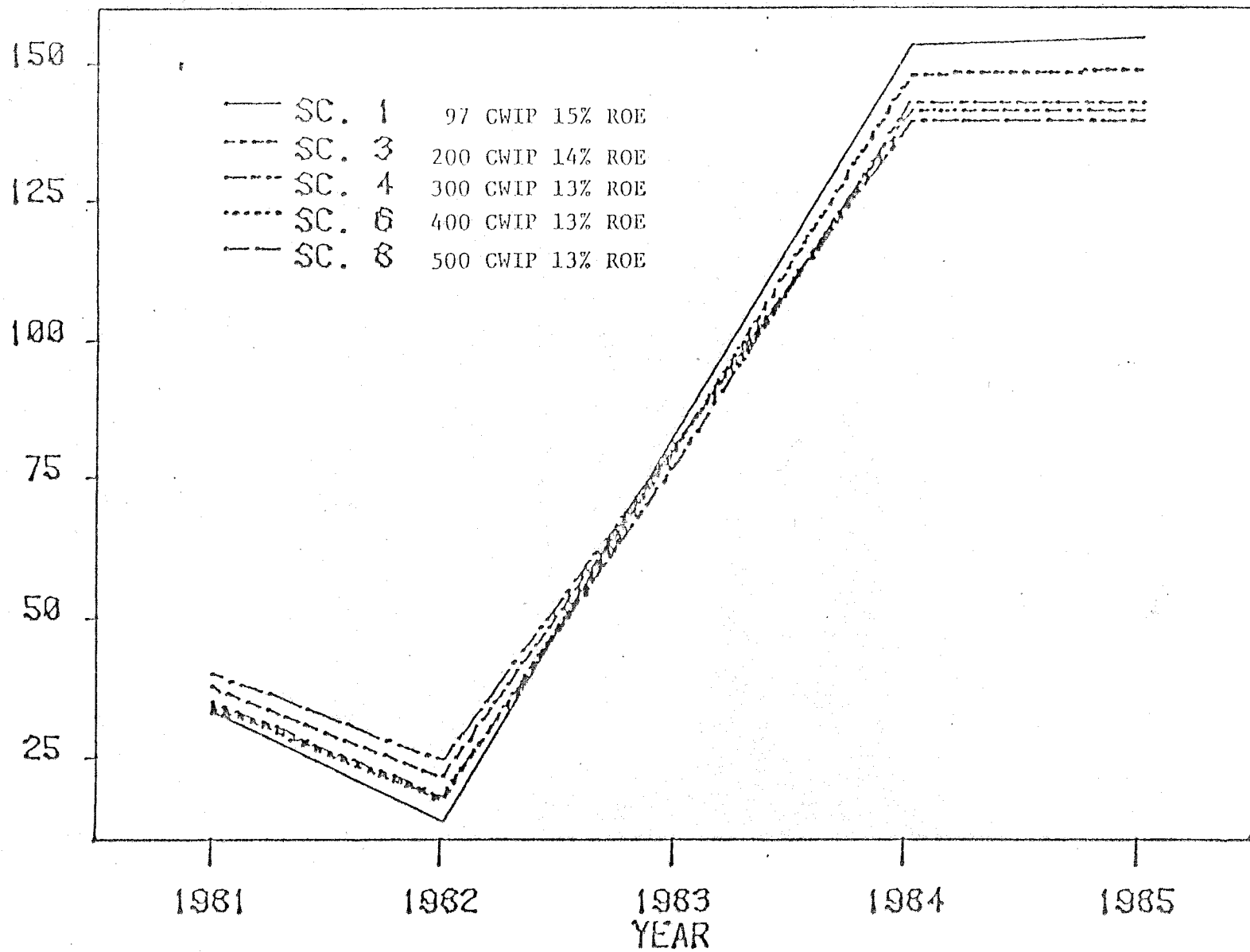
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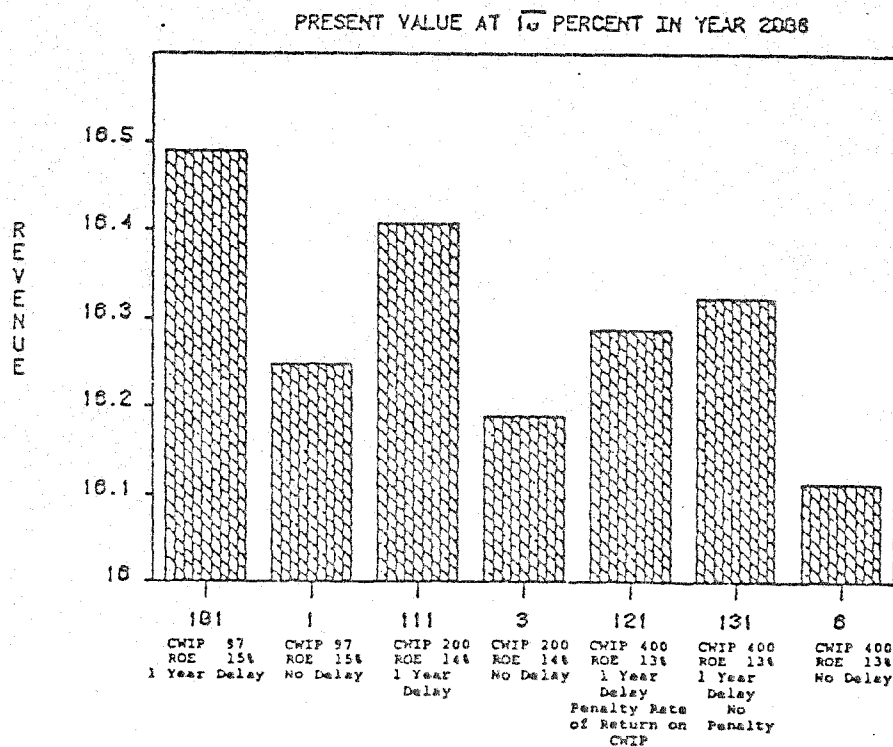
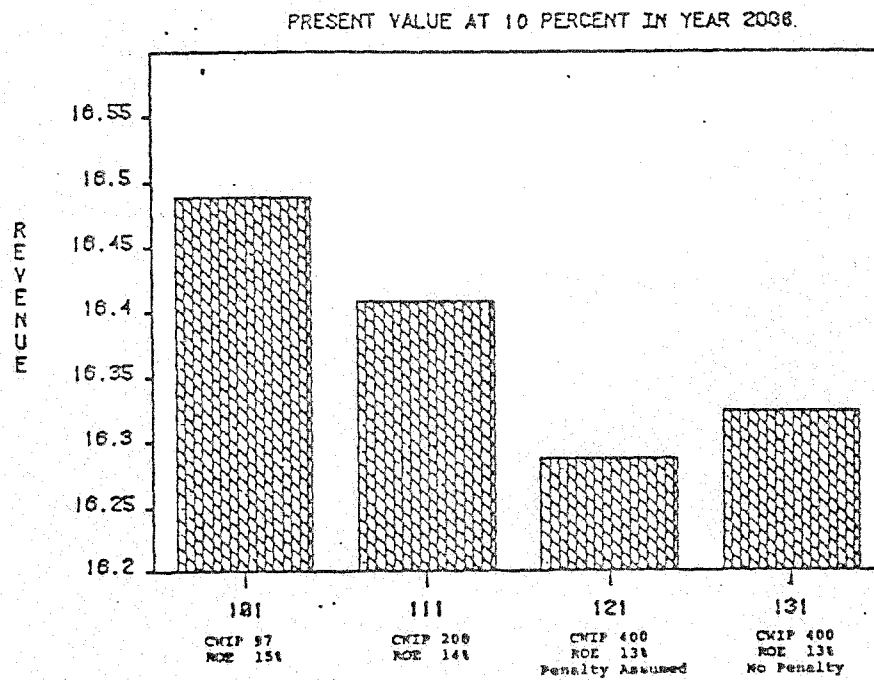
| Scenario # | CWIP in Rate Base | 1981 ROE | 1981 DPS | 1981 | 1982 | Year 1983 | 1984 | 1985 |
|---------------|----------------------|-------------|-------------|------|------|--------------|------|------|
| 1 | 97 | 15% | 2.28 | 3.30 | 2.80 | 3.24 | 3.59 | 3.55 |
| 1 | 97 | 15% | 2.38 | 3.30 | 2.90 | 3.24 | 3.59 | 3.55 |
| 2 | 200 | 13% | 2.28 | 3.12 | 2.73 | 3.09 | 3.57 | 3.53 |
| 2 | 200 | 13% | 2.38 | 3.12 | 2.73 | 3.09 | 3.57 | 3.53 |
| 3 | 200 | 14% | 2.28 | 3.26 | 2.86 | 3.15 | 3.57 | 3.53 |
| 3 | 200 | 14% | 2.38 | 3.26 | 2.86 | 3.15 | 3.57 | 3.53 |
| 4 | 300 | 13% | 2.28 | 3.20 | 2.86 | 3.05 | 3.55 | 3.51 |
| 4 | 300 | 13% | 2.38 | 3.20 | 2.80 | 3.05 | 3.55 | 3.51 |
| 5 | 300 | 14% | 2.28 | 3.36 | 2.93 | 3.11 | 3.55 | 3.51 |
| 5 | 300 | 14% | 2.38 | 3.36 | 2.93 | 3.11 | 3.55 | 3.51 |
| 6 | 400 | 13% | 2.28 | 3.30 | 2.88 | 3.02 | 3.53 | 3.49 |
| 6 | 400 | 13% | 2.38 | 3.30 | 2.88 | 3.02 | 3.53 | 3.49 |
| 7 | 400 | 14% | 2.28 | 3.45 | 3.01 | 3.08 | 3.53 | 3.49 |
| 7 | 400 | 14% | 2.38 | 3.45 | 3.01 | 3.08 | 3.53 | 3.49 |
| 8 | 500 | 13% | 2.28 | 3.39 | 2.95 | 2.98 | 3.51 | 3.46 |
| 8 | 500 | 13% | 2.38 | 3.39 | 2.95 | 2.98 | 3.51 | 3.46 |

ILLINOIS POWER CO. - DOCKET NO. 80-0544
REVENUE FOR CORE SCENARIOS



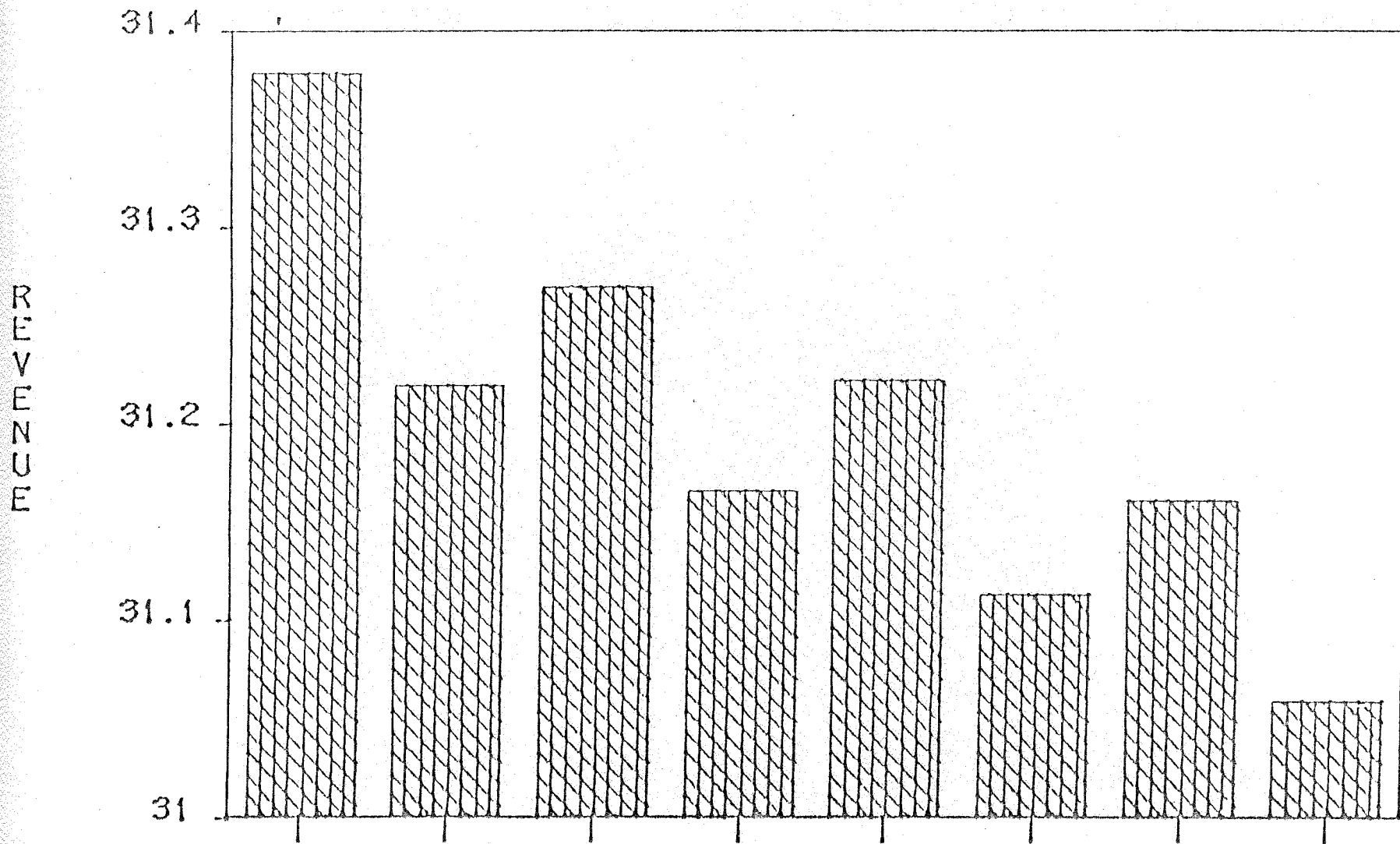
INTERNAL GENERATION/ CONSTRUCTION EXPENDITURES





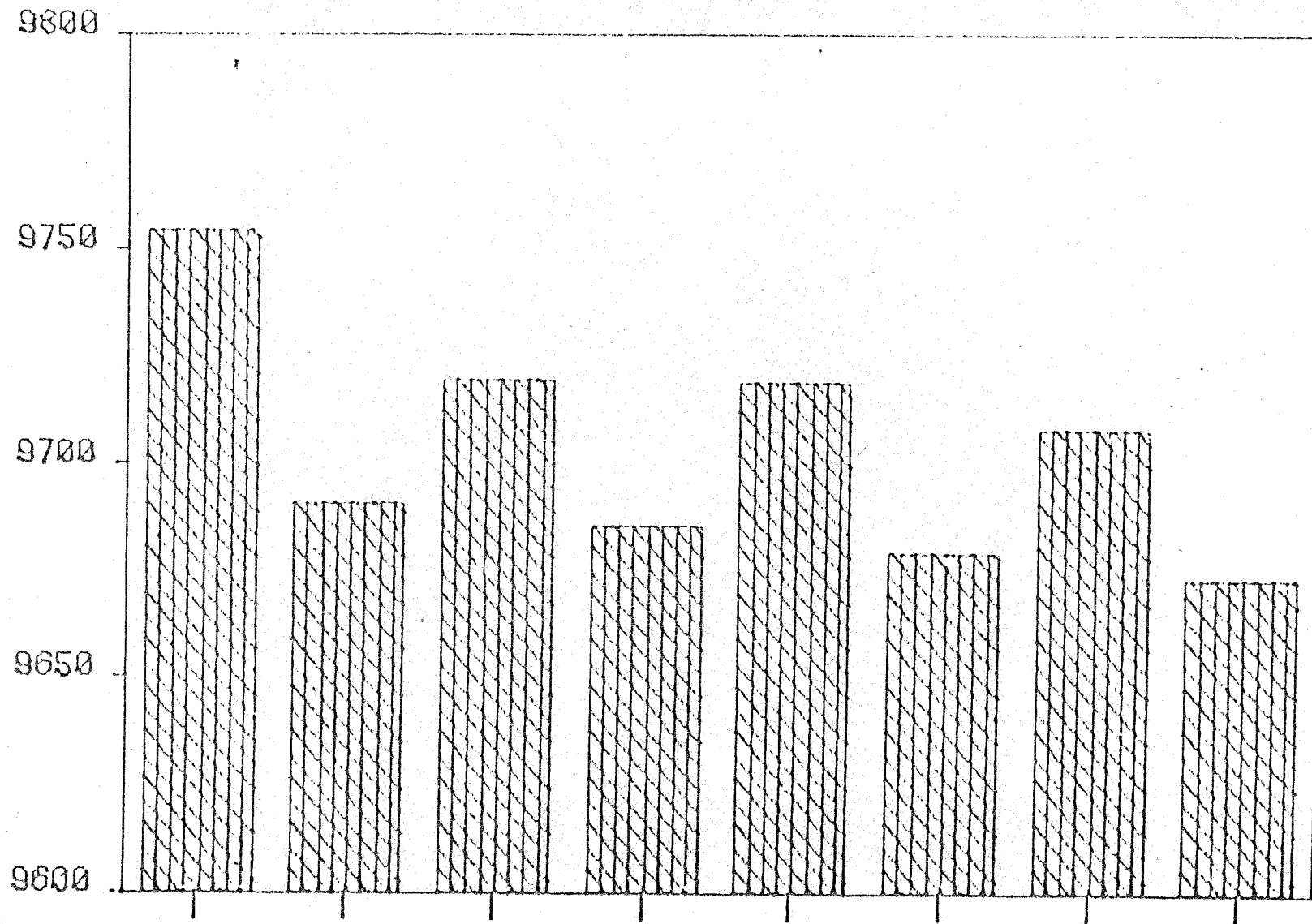
Billions of Dollars

ILLINOIS POWER CO. - DOCKET NO. 80-0544
PRESENT VALUE AT 5 PERCENT IN YEAR 2008



| | | | | | | | | |
|-------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Scenario # | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| CWIP in Rate Base | 97 | 200 | 200 | 300 | 300 | 400 | 400 | 500 |
| 1981 ROE | 15% | 13% | 14% | 13% | 14% | 13% | 14% | 13% |

REVENUE



| | | | | | | | | |
|-------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Scenario # | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| CWIP in Rate Base | 97 | 200 | 200 | 300 | 300 | 400 | 400 | 500 |
| 1981 ROE | 15% | 13% | 14% | 13% | 14% | 13% | 14% | 13% |

Illinois Power Company
Docket #80-0544
Scenario #1

Page 1 of 31
Staff Exhibit AF 3.2

WHICH REPORT

ILLINOIS COMMERCE COMMISSION
FINANCIAL ANALYSIS MODEL

ILLINOIS POWER INCENTIVE CASE
INCOME STATEMENT

MILLIONS OF CURRENT DOLLARS

| DECEMBER 31, | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| OPERATING REVENUES | 975.97 | 1089.10 | 1318.56 | 1556.25 | 1613.34 | 1684.58 | 1737.55 | 1800.11 | 1868.44 |
| FUEL | 522.34 | 607.85 | 659.02 | 705.61 | 824.89 | 866.14 | 909.44 | 954.91 | 1002.66 |
| PURCHASED POWER | -28.16 | -19.84 | -48.41 | -93.71 | -96.52 | -99.41 | -102.40 | -105.47 | -108.63 |
| OPERATION & MAINTENANCE | 144.00 | 157.70 | 207.92 | 200.62 | 215.67 | 231.84 | 249.23 | 267.92 | 288.02 |
| OTHER OPER EXPENSES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DEPRECIATION | 59.26 | 61.36 | 91.24 | 121.51 | 126.45 | 131.91 | 134.99 | 138.39 | 142.10 |
| TOTAL OP EXPENSES W/O TAX | 697.44 | 807.06 | 909.77 | 1014.03 | 1070.49 | 1130.48 | 1191.27 | 1255.75 | 1324.14 |
| REVENUE TAXES | 29.28 | 32.67 | 39.56 | 46.69 | 48.40 | 50.54 | 52.13 | 54.00 | 56.05 |
| PROPERTY & MISC TAXES | 26.89 | 28.94 | 32.47 | 35.18 | 35.67 | 36.18 | 36.39 | 36.70 | 37.11 |
| INCOME TAXES CURRENT | 37.22 | 29.54 | 61.84 | 94.54 | 95.86 | 99.06 | 95.85 | 96.69 | 98.27 |
| DEFERRED INCOME TAX NET | 22.76 | 24.65 | 46.60 | 64.50 | 60.03 | 59.39 | 54.84 | 51.65 | 48.27 |
| INVESTMENT CREDIT - NET | 24.43 | 23.91 | 9.25 | 6.99 | 6.25 | 6.43 | 6.68 | 6.93 | 7.20 |
| TOTAL OPERATING EXPENSES | 838.02 | 946.78 | 1099.48 | 1261.93 | 1316.70 | 1381.07 | 1437.14 | 1501.72 | 1571.04 |
| UTILITY OPERATING INCOME | 137.95 | 142.33 | 219.09 | 294.32 | 296.65 | 303.50 | 300.41 | 298.39 | 297.40 |
| NON-OPERATING TAX CREDIT | 19.44 | 25.83 | 15.45 | 3.81 | 2.17 | 0.12 | 0.11 | 0.11 | 0.11 |
| AFUDC (DEBT AND EQUITY) | 79.43 | 107.86 | 76.80 | 10.46 | 6.08 | 0.0 | 0.0 | 0.0 | 0.0 |
| MISC. OTHER INCOME (NET) | 0.20 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 |
| INCOME BEFORE INTEREST | 237.03 | 276.22 | 311.55 | 308.80 | 305.11 | 303.83 | 300.73 | 298.72 | 297.73 |
| INTEREST EXPENSE (OR INCOME): | | | | | | | | | |
| LONG TERM DEBT | 89.72 | 103.89 | 114.57 | 118.51 | 118.39 | 116.77 | 115.06 | 113.83 | 113.07 |
| NOTES PAYABLE (MKT SEC) | 1.92 | 9.50 | 12.57 | 12.65 | 12.65 | 12.65 | 16.56 | 16.56 | 16.56 |
| NET INCOME | 145.40 | 162.83 | 184.41 | 177.65 | 174.07 | 174.42 | 169.12 | 168.33 | 168.11 |
| PREFERRED DIVIDENDS | 20.72 | 23.43 | 25.64 | 25.82 | 25.51 | 25.09 | 24.65 | 24.33 | 24.13 |
| EARNINGS TO COMMON STOCK | 124.67 | 139.40 | 158.77 | 151.83 | 148.55 | 149.33 | 144.47 | 144.01 | 143.98 |
| COMMON DIVIDENDS | 83.07 | 94.53 | 100.19 | 100.19 | 98.21 | 95.66 | 92.83 | 90.23 | 87.55 |
| NET INCOME AFTER DIVIDENDS | 41.60 | 44.87 | 58.58 | 51.64 | 50.34 | 53.66 | 51.63 | 53.78 | 56.42 |